
DEVELOPMENT OF CAPITAL BY CREDIT UNIONS

The following information briefly introduces methods credit unions may use to develop capital.

CATEGORIES OF CAPITAL

UTAH CODE ANN. §§ 7-9-3; 7-9-27(1); 7-9-30(2)(c);

- ◆ **Capital and Surplus** means shares (capital paid by members from which they receive dividends), deposits (capital paid by members from which they receive interest), reserves, and undivided earnings.
- ◆ **Regular Reserve.** "The regular reserve belongs to the credit union and shall be used to build equity and to meet contingencies or losses when authorized by the commissioner or the supervisor of credit unions."
- ◆ **Undivided Earnings.** After meeting its regular reserve requirements, a credit union may pay dividends from either current earnings or undivided earnings. Credit unions also may use undivided earnings to cover losses.

REGULAR RESERVE REQUIREMENTS

UTAH CODE ANN. § 7-9-30

A credit union in operation for more than four years **and** having assets of \$500,000 or more must:

set aside at least
10%
of gross income from member loans until the
regular reserve equals at least
4%
of the total of outstanding loans and risk assets;*

then

set aside at least
5%
of gross income from member loans until the
regular reserve equals at least
6%
of the total of outstanding loans and risk assets.

A credit union in operation for less than four years **or** having assets of less than \$500,000 must:

set aside at least
10%
of gross income from member loans until the
regular reserve equals at least
7½%
of the total of outstanding loans and risk assets;

then

set aside at least
5%
of gross income from member loans until the
regular reserve equals at least
10%
of the total of outstanding loans and risk assets.

The Commissioner of Financial Institutions may reduce or waive these requirements if it is in the best interest of the credit union.

*Risk assets means all assets except:

- ✓ cash on hand;
- ✓ deposits and shares in certain federal or state depository institutions;
- ✓ assets insured by certain federal agencies and organizations;

- ✓ insured student loans;
- ✓ loans insured by the Federal Housing Administration;
- ✓ shares or deposits in corporate credit unions;
- ✓ accrued interest on non-risk investments; and
- ✓ loans fully guaranteed by shares or deposits.